HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Saskatoon CMA

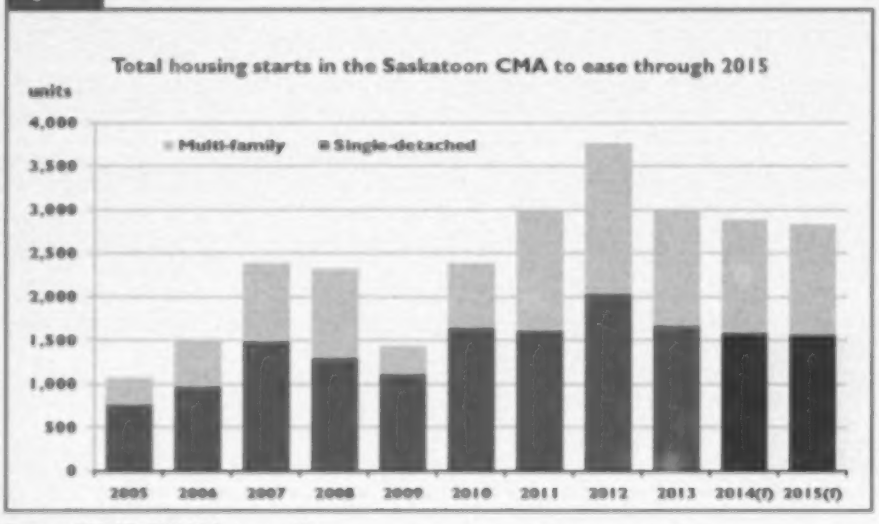
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2014

Highlights[1]

- Rising new home inventory will prompt a slower pace of housing starts in 2014 and 2015
- Resales to increase in 2014 and edge higher in 2015, but resale price gains to remain modest
- Rental apartment vacancies to rise modestly over forecast period
- Net migration to decrease but remain elevated through 2015

Figure 1



Source: CMHC, CMHC Forecast (f)

[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 30, 2014.

[2] Multiple Listing Service ® (MLS ®) is a registered trademark owned by the Canadian Real Estate Association.

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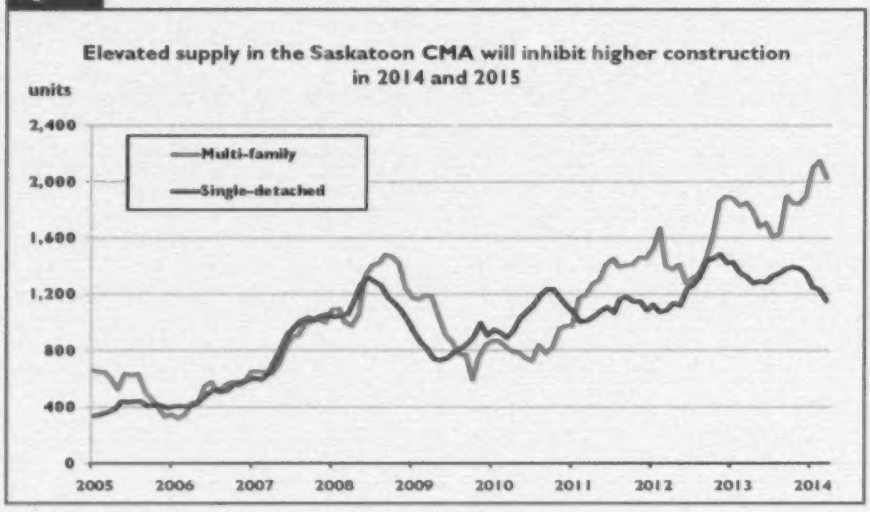
New Home Market: Elevated Supply Levels will Inhibit Starts in 2014

Total housing starts in the Saskatoon Census Metropolitan Area (CMA) are forecast to reach 2,880 units in 2014, a reduction of 3.4 per cent from the 2,980 starts achieved in 2013. With the inventory of complete and unabsorbed units 40 per cent higher year-over-year at the end of 2013, local homebuilders will be reluctant to quicken the pace of housing starts this year. In addition, a moderating pace of employment growth and net migration will move housing starts lower this year and next year. A total of 2,835 housing starts are projected for 2015. Despite the reduction, housing starts in Saskatoon over the forecast period will remain among the highest in over 30 years, supported by continued employment growth, population gains, rising incomes, and low mortgage rates.

Builders of single-detached homes in Saskatoon are expected to initiate 4.7 per cent fewer starts in 2014 as they contend with rising inventory and competition from a well-supplied resale market. After 1,580 single-detached starts in 2014, a further reduction to 1,560 units is projected for 2015. Despite the moderation, single-detached starts will remain near the five-year average, supported by continued employment growth and an expanding population.

There were 219 single-detached homes started to the end of March 2014, down 23 per cent from the same period one year prior. Despite the reduction, the inventory of complete and unabsorbed single-detached units stood at 294 in March, up 11 per cent from a year earlier and among the highest levels on record. With more than 90 per cent of this inventory consisting of spec homes, this raises the risk of additional inventory gains in the months ahead, prompting a slower pace of starts this year and next.

Figure 2



Source: CMHC

The combination of fewer housing starts and increased production capacity in the new home market in recent years is expected to limit the gain in contractor's selling prices. As a result, Statistics Canada's New House Price Index (NHPI) is expected to increase only 2.5 per cent this year and 1.8 per cent next year. In the absence of compositional factors, the average absorbed price for a single-detached home in Saskatoon will increase by similar amounts, reaching $450,000 in 2014 and $456,000 in 2015.

Multi-family starts, which consist of semi-detached units, rows and apartments, are forecast to moderate to 1,300 units in 2014, down slightly from 1,322 in 2013. Rising inventory will prompt builders to slow the pace of introducing new projects this year. Notwithstanding, Saskatoon builders initiated 381 multi-family units in the first quarter of 2014, up more than double the 181 units in the corresponding period one year prior. This increase was due to a couple of large condominium and apartment projects that began construction in January and February of this year. As a result, the number of multiples under construction was nearly 10 per cent higher in March 2014 than during the same month in 2013. Absorptions have continued to lag completions, resulting in an eight per cent gain in inventory at the end of March 2014. Moving forward, this will limit multi-family starts in 2014. A further reduction to 1,275 multi-family starts is projected for 2015.

Existing Home Market: MLS® Sales to Rise Further Next Year

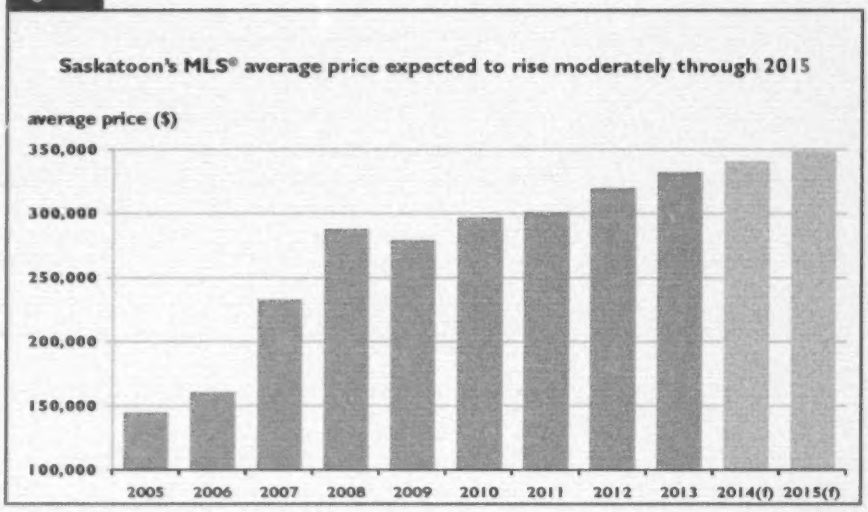
After a 2.7 per cent expansion in 2013, sales of existing homes are on pace to rise 3.7 per cent this year to a record 5,750 transactions and then to 5,825 in 2015. Gains in sales will be supported by continued employment growth, low mortgage rates, and

elevated net migration. During the first quarter of 2014, 1,205 homes exchanged hands in Saskatoon, up 9.5 per cent from the same period one year earlier.

To the end of March 2014, gains in resale demand have been countered by a larger increase in supply, which has provided potential buyers with more selection. Discussions with industry indicate that move-up buying and builders listing new homes on the MLS® have led to an increase in active listings. In March 2014, active listings numbered 2,456 units, 17 per cent higher than in the same month one year prior. As a result, the sales-to-active listings ratio was at 20.4 per cent in March, down from 22.1 per cent in March 2013. Given this, the average days on market increased to 50 in March, compared to 43 in the same month of the previous year.

With supply growing faster than demand, resale price growth is moderating. The average MLS® price in Saskatoon is forecast to increase 2.8 per cent to $341,300 in 2014 and rise 2.1 per cent to $348,600 in 2015. These gains are considerably lower than the increases during the previous two years. Thus far in 2014, compositional factors have contributed to the upward movement of the average resale price. To the end of March 2014, the share of homes selling at $450,000 and above rose to 18 per cent, compared to 14 per cent in the corresponding period of 2013. In 2015, rising carrying costs, slightly higher mortgage rates, and weaker equity gains are expected to slow the shift towards higher priced homes. On balance, these factors will lead to moderate growth in the average resale price this year and next.

Figure 4

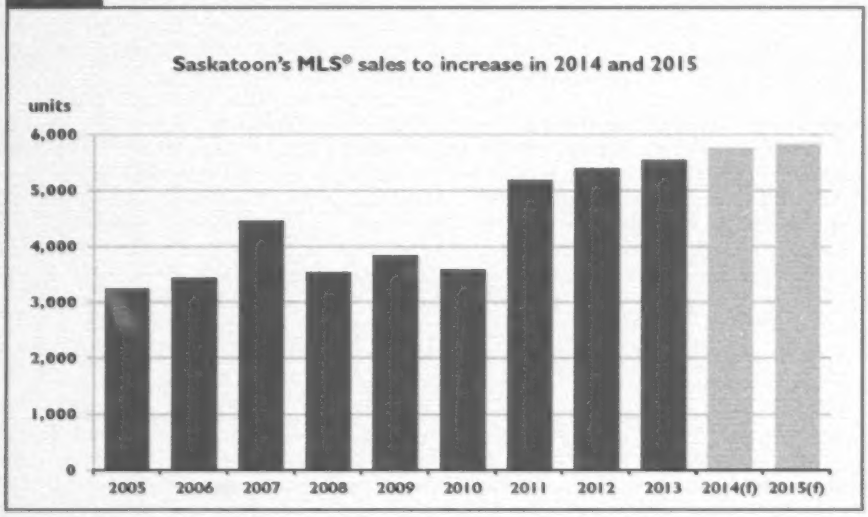


Source: CREA, CMHC Forecast (f)

Rental Market: Modest Increases in Vacancies and Rents Through 2015

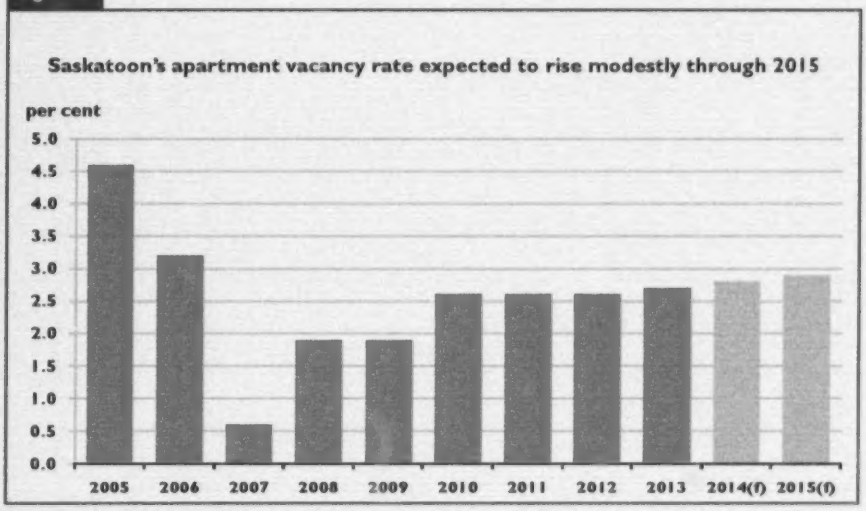
Rental apartment vacancies in Saskatoon are forecast to rise modestly to 2.8 per cent in 2014 and 2.9 per cent in 2015, as builders add to supply via new construction and more renter households move into homeownership. On the demand side, continued employment growth and rising wages will keep drawing migrants to the region, adding to overall rental demand. More than 18,000 newcomers have arrived in Saskatoon in the past two years, the majority of whom have been international migrants with a high propensity to rent upon their arrival. On the supply side, additions to the rental universe via new construction

Figure 3



Source: CREA, CMHC Forecast (f)

Figure 5



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

will offer more units for renters. In the 12-month period ending March 2014, completions of units for rental tenure totalled 192. Along with continued competition from the secondary rental market, this will help alleviate some of the downward pressure on vacancies. Based on CMHC's October 2013 Rental Market Survey, 20 per cent of condominium apartment units in Saskatoon were investor-owned and rented, rather than owner-occupied.

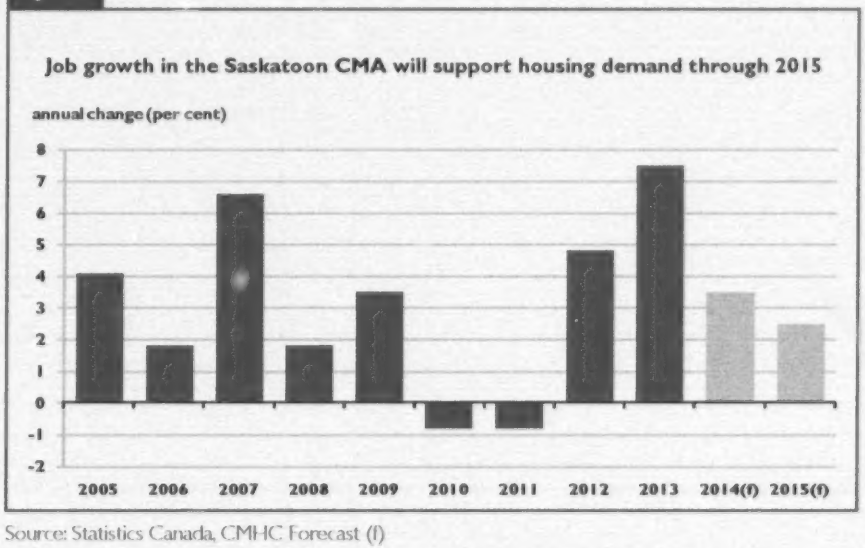
While demand for rental apartments in Saskatoon will remain elevated over the forecast period, the gradual increase in vacancies will reduce the incentive for landlords to raise rents too quickly. As a result, the average monthly rent for a two-bedroom apartment is forecast to increase to $1,075 in October 2014 compared to $1,041 in October 2013. Next year, additions of new rental units at higher price points will help push up the average monthly rent for a two-bedroom apartment to $1,105.

Economic Trends: Job Growth and Net Migration to Moderate

After a 7.5 per cent gain in 2013, average employment in Saskatoon is forecast to increase further in 2014 and 2015, albeit at a more moderate pace. In 2014, employment is projected to expand by 3.5 per cent to an average 169,635 positions, supported by continued capital spending on infrastructure, institutional, and resource expansion projects. An additional gain of 2.5 per cent is projected for 2015. To the end of March 2014, a total 5,400 jobs were created in Saskatoon, compared to 10,600 in the same period one year prior. Less than a third of the jobs created were full-time, while the majority were part-time positions.

The predominance of part-time job growth through March contributed to a marginal increase in average weekly earnings to $951, compared to $949 in the same period of 2013. With additions to the labour force surpassing employment expansion, Saskatoon's unemployment rate averaged 4.6 per cent in March, up from 3.9 per cent in March 2013. Moving forward, tight labour market conditions are expected to continue over the forecast period. The expansion of Saskatoon's labour market is expected to generate an average unemployment rate of 4.4 per cent and 4.5 per cent in 2014 and 2015, respectively.

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

Despite the strong pace of job growth last year, total net migration to Saskatoon moderated to 9,219 people in 2013, down 2.6 per cent from the peak levels of 2012. Nonetheless, this still represents the second highest number of net arrivals on record. This year and next, we expect improving economies outside of Saskatchewan, particularly in Alberta, to reduce the province's magnetic draw for migrants. Consequently, net migration to Saskatoon is projected to slow to 8,000 people in 2014, before declining further to 7,500 in 2015. Despite the reduction, net migration to Saskatoon will remain a large contributor to population growth, new household formation, and housing demand over the next two years.

Mortgage Rate Outlook

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.5 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards.
Employment	Continued employment growth will support demand for newly constructed homes moving forward.
Income	Rising average weekly earnings will continue to support housing demand in the new home market.
Population	Moderation in total net migration to Saskatoon will reduce demand for housing in 2014, albeit modestly.
Resale Market	Elevated active listings and modest resale price growth will provide increased competition to the new home market.
New Home Inventory	Rising inventory in the new home market will prompt local builders to slow the pace of initiating new projects this year and next.

Forecast Risks

This outlook is subject to some risks, including:

- A stronger than expected U.S. economic expansion or stronger growth in emerging countries could lead to higher global commodity prices, which would positively impact the Saskatchewan economy through stronger exports. This could lead to stronger demand for housing in the region.
- An inordinate build up of new home inventory over the next several months could prompt some local builders to delay or reduce the size of certain construction projects. This would lead to a greater moderation in the number of housing starts than is currently forecast.
- A slower than expected pace of employment growth in Saskatoon this year would reduce net migration further than has been forecast and negatively impact housing demand.

Forecast Summary Saskatoon CMA Spring 2014							
	2011	2012	2013	2014F	% chg	2015F	% chg
New Home Market							
Starts:							
Single-Detached	1,608	2,025	1,658	1,580	-4.7	1,560	-1.3
Multiples	1,386	1,728	1,322	1,300	-1.7	1,275	-1.9
Starts - Total	2,994	3,753	2,980	2,880	-3.4	2,835	-1.6
Average Price ($):							
Single-Detached	389,580	408,491	437,880	450,000	2.8	456,000	1.3
Median Price ($):							
Single-Detached	360,000	370,000	409,900	423,000	3.2	432,000	2.1
New Housing Price Index (% chg.)	1.4	2.3	1.5	2.5	-	1.8	-
Resale Market							
MLS® Sales	5,183	5,396	5,543	5,750	3.7	5,825	1.3
MLS® New Listings	10,284	10,217	11,385	11,900	4.5	12,100	1.7
MLS® Active Listings	2,154	2,197	2,431	2,570	5.7	2,620	1.9
MLS® Average Price ($)	301,232	319,469	332,058	341,300	2.8	348,600	2.1
Rental Market							
October Vacancy Rate (%)	2.6	2.6	2.7	2.8	-	2.9	-
Two-bedroom Average Rent (October) ($)	966	1,002	1,041	1,075	-	1,105	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	144,700	151,500	162,900	168,601	3.5	172,816	2.5
Employment Growth (%)	-0.8	4.7	7.5	3.5	-	2.5	-
Unemployment rate (%)	5.6	5.6	4.1	4.4	-	4.5	-
Net Migration [1]	4,919	9,463	9,219	8,000	-13.2	7,500	-6.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of April 30, 2014.

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which, have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM1 database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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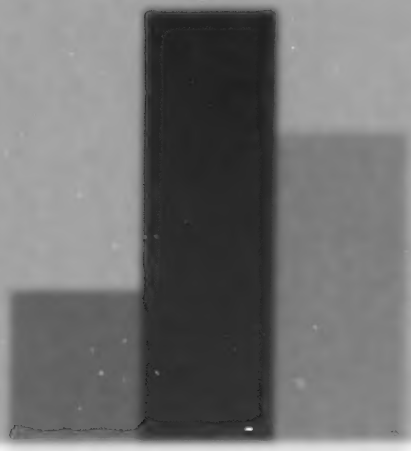

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